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April 8, 2021

VIA E-MAIL

Jan Schneider
Store Torv 10, 3rd floor, office 2
8000 Århus C, Denmark

Re: Repayment of Reclaim Proceeds by Luke McGee

Dear Mr. Schneider:

On behalf of our client, Luke McGee, we respectfully submit this letter to respond to an inquiry from SØIK, and to supplement Mr. McGee's Record of Interrogation from January 6-8, 2021. In this letter, we summarize the 2019 civil settlement that Mr. McGee reached with Skatteforvaltningen ("Skat"). In our summary, we describe the proceeds that Mr. McGee received from Danish tax reclaims, his agreement with Skat to repay those proceeds, and his repayments to date.

THE PRIMARY GOALS OF THE SKAT SETTLEMENT

The Skat settlement furthers two goals: (1) repayment of the full amount of net proceeds received from reclaim applications made to Skat—directly or indirectly—by Mr. McGee and the other [REDACTED] principals, Matthew Stein and Jerome Lhote; and (2) cooperation with Skat to help the tax authority recover reclaim proceeds received by other parties involved in the dividend trading. With respect to both goals, the settlement agreement calls for full and complete participation by Mr. McGee and the other [REDACTED] principals.

BACKGROUND OF THE SKAT SETTLEMENT—MR. MCGEE'S PIVOTAL ROLE IN ADVOCATING FOR A SETTLEMENT

Since he heard news reports in August 2015 that Skat was investigating alleged tax fraud by traders using a dividend arbitrage strategy, Mr. McGee has consistently advocated for returning the money. At Mr. McGee's urging and through U.S. counsel, the [REDACTED] and [REDACTED] principals began negotiations with Skat. Ultimately, two of the [REDACTED] principals, [REDACTED], pulled out of the discussions and in 2019, they were sued by Skat. However, Mr. McGee, Mr. Lhote, and Mr. Stein reached a significant settlement agreement with Skat in May 2019. This was before Skat initiated any lawsuits against Mr. McGee or his pension plans, and before Mr. McGee learned that he faced potential criminal charges in Denmark.



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THE BASIC TERMS OF THE SKAT SETTLEMENT

The settlement with Skat requires Mr. McGee and the other [REDACTED] principals to repay in full the net proceeds received by the [REDACTED] principals from reclaim applications submitted to Skat in connection with [REDACTED] and [REDACTED]. The approximate settlement amount is 1.55 billion DKK, which consists of the gross proceeds received, less the principals' expenses associated with the reclaim applications and any portion of gross reclaims received by parties excluded from the settlement's releases. Initial cash payments totaling 950 million DKK were paid to Skat as of August 8, 2019. Over time, Mr. McGee and the other principals have agreed to make additional cash payments totaling approximately 600 million DKK.

The principals have agreed to provide Skat with documentation establishing the total amount of net proceeds received. If the documentation establishes the net proceeds are greater than 1.55 billion DKK, the principals will pay a "True-Up" amount to cover the difference. If the principals have not paid the additional 600 million DKK plus any True-Up amount by May 28, 2021, interest will begin to accrue on the remaining unpaid amount.

Cash for the remaining payments is expected to be realized from the liquidation of seven specified categories of assets, one of which is North Channel Bank. As of the signing of the settlement agreement, the expected net realizable value of these assets, including North Channel Bank, was 565 million DKK. [REDACTED] principals have agreed to provide quarterly progress reports to Skat regarding the liquidation of these assets. To date, the [REDACTED] principals have submitted six progress reports to Skat's U.S. counsel, detailing efforts to liquidate the seven categories of assets. As described in those progress reports, North Channel Bank has retained advisors to assist in the process of selling the bank, and the bank has reached out to potential buyers. The principals have reported that North Channel Bank received a bid at the level of approximately 42.5 million EUR (316.2 million DKK) and that while the bidder's original financing plan has not materialized, they understand the bidder is continuing to pursue alternate financing support for the bid.¹ Further, North Channel Bank is continuing discussions with additional bidders. Other assets have been liquidated and payments made to Skat, including, *inter alia*, \$500,000 in partial payment of a note due from a domestic third-party insurance company, which was converted into 4,507,895 DKK and wired to Skat on July 21, 2020. In the future, when the principals begin receiving premium commission payments in

¹ For purposes of this submission, we have used the following exchange rates: EUR to DKK = 7.44; USD to DKK = 6.13; EUR to USD = 1.20. The precise numbers may vary slightly from the approximate values reflected herein.



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connection with an asset purchased by a privately held insurance agency, those funds will be paid to Skat on a periodic basis every three months for expected annualized payments of approximately \$700,000 USD (4.3 million DKK) through June 2025.

The [REDACTED] principals are jointly and severally liable for the outstanding payments. There is an understanding among the principals that they will each pay back sums in proportion to the amount each received, but Mr. McGee is prepared to pay more than he received, if necessary.

THE PROCEEDS THAT MR. MCGEE RECEIVED FROM DANISH RECLAIM TRADING

Mr. McGee received the equivalent of approximately \$20,601,718 USD (126,288,531 DKK) from Danish reclaim trading, all of which has been repaid or pledged to Skat.² The proceeds received by Mr. McGee fall into two categories: (1) proceeds received from trading through four pension plans, and (2) proceeds received as a result of Mr. McGee's interest in an entity known as [REDACTED]. Although Mr. McGee was entitled to a share of additional Danish reclaim proceeds received by other entities, such funds were never actually distributed to him.

Proceeds from trading by four pension plans. Mr. McGee participated in reclaim trading through four pension plans: [REDACTED]³ Mr. McGee received a portion of the reclaims received by these plans, totaling approximately \$3,101,718 USD (19,013,531 DKK). This figure includes \$304,909 USD (1,869,092 DKK) paid out by the pension plans in professional and legal fees.

Proceeds from Mr. McGee's interest in [REDACTED]. Mr. McGee also received reclaim proceeds as a result of his interest in [REDACTED]. [REDACTED] partnered with certain pension plans that engaged in dividend trading through [REDACTED]. In connection with this trading, [REDACTED] received an approximate net total of 82,619,878 EUR (614.7 million DKK). That sum in turn was distributed to private placement life insurance ("PPLI") policies for the benefit of the

² A small portion of the numbers in this submission may be attributable to proceeds from Belgian trading. We have not adjusted the numbers to account for Belgian trading, so the numbers used to calculate Mr. McGee's obligations to Skat are slightly higher than what he actually received. Nevertheless, Mr. McGee has based his repayments to Skat on these higher numbers.

³ Mr. McGee established [REDACTED] for [REDACTED], an entity that he formed for his wife's fashion business.



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principals of [REDACTED], and the amount of those distributions reflected each principal's respective ownership stake in [REDACTED]. Mr. McGee had a minority interest of 17.60% in [REDACTED]. Accordingly, Mr. McGee's private placement life insurance policy received 17.60% of the total amount received by [REDACTED]: 14,541,098 EUR (\$17.5 million USD or 107.3 million DKK).

Other proceeds from Danish reclaim trading. Consistent with the [REDACTED] profit split outlined above, there was an understanding that Mr. McGee was entitled to 17.60% of reclaim proceeds received by three other entities that entered into partnerships with [REDACTED] pension plans: [REDACTED]. However, these proceeds were never distributed to Mr. McGee. Instead, the funds were used in the ordinary course of operating [REDACTED], to repay loans taken out to purchase North Channel Bank, and to repay to Skat as part of the initial August 2019 settlement payment of 950 million DKK.

MR. MCGEE'S USE OF THE PROCEEDS RECEIVED BY HIM AND HIS PERSONAL CONTRIBUTIONS TO THE SKAT SETTLEMENT

Proceeds from trading by four pension plans. As noted previously, Mr. McGee received approximately \$3,101,718 USD (19,013,531 DKK) from his trading in four pension plans. Prior to the current investigation, Mr. McGee took out a loan from the pension plans to pay for his wedding in 2013, which he repaid in full in 2013 or 2014. Thereafter, Mr. McGee used some of the funds in the pension plans to pay legal fees.

To date, Mr. McGee has repaid or pledged to Skat the approximately \$3,101,718 USD (19,013,531 DKK) received from trading in the four pension plans in the following increments:⁴

- In May 2017, all \$2,478,840 USD (15,195,289 DKK) received by the [REDACTED] [REDACTED] was transferred to [REDACTED]. All of the money held by Chaumont Capital Group was subsequently used to retire debt used to purchase North Channel Bank, or contributed outright to the settlement with Skat. As a result of the Skat settlement, the value of any equity interest that Mr. McGee has in North Channel Bank has already been pledged to Skat.

⁴ Mr. McGee is in the process of gathering bank records reflecting the repayments described in this letter, to the extent such records are within his possession. Certain payments were carried out by third parties; thus, Mr. McGee may not possess documentation for those transactions.

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- On May 30, 2019, \$52,550 USD (322,131 DKK) from [REDACTED] was contributed to the settlement with Skat.
- On June 10, 2019, two payments totaling \$68,340 USD (418,925 DKK) from [REDACTED] were contributed to the settlement with Skat.
- On June 10, 2019, \$89,392 (547,972 DKK) from [REDACTED] was contributed to the settlement with Skat.
- On March 22, 2021, Mr. McGee paid Skat a total of \$3,195,000 USD (19,916,383.95 DKK).⁵ This includes \$412,596 USD (2,529,214 DKK) to fully repay the \$3,101,718 USD (19,013,531 DKK) that Mr. McGee received from his trading in four pension plans.⁶

Proceeds from Mr. McGee's interest in [REDACTED] As noted previously, [REDACTED] distributed to Mr. McGee's private placement life insurance policy an aggregate sum of approximately \$17.5 million USD (107.3 million DKK). In 2014-2015, Mr. McGee borrowed a total of \$10.98 million USD (67.3 million DKK) (the "PPLI Loan") from his PPLI policy. Mr. McGee sent \$6.48 million USD (39.7 million DKK) of the PPLI Loan proceeds to [REDACTED] for the purpose of retiring debt used to purchase North Channel Bank. As noted above, as a result of the Skat settlement, the value of any equity interest that Mr. McGee has in North Channel Bank has already been pledged to Skat.

Mr. McGee received the remaining \$4.5 million USD (27.6 million DKK) of the PPLI Loan for his personal use. Mr. McGee used some of these funds to purchase a family home. After the PPLI Loan, approximately \$6.52 million USD (39.97 million DKK) remained in Mr. McGee's private placement life insurance policy. That sum was invested in vehicles that were managed by third-party professional investment managers on behalf of the PPLI. At the time of the settlement with Skat, approximately \$5.9 million USD (36.2 million DKK) remained in Mr. McGee's PPLI. (Over time, the balance had declined from \$6.52 million USD to \$5.9 million USD due to operational costs such as the insurance premium and administrative fees paid to the insurance provider, Crown Global.)

⁵ Skat's U.S. counsel confirmed receipt of 19,916,383.95 DKK on March 23, 2021.

⁶ The remaining portion of the March 22, 2021 payment—\$2,775,147 USD (17,011,651 DKK) – represents full repayment of the total amount that Mr. McGee received from his interest in [REDACTED]



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Of the total of approximately \$17.5 million USD (107.3 million DKK) that [REDACTED] distributed to Mr. McGee's PPLI policy, Skat has received the value of \$6.48 million USD (39.7 million DKK) via the pledge of North Channel Bank. With respect to the balance of approximately \$11 million USD (67.43 million DKK), Mr. McGee has repaid this money to Skat in the following increments:

- In April 2019, the remaining balance of \$5.9 million USD (36.2 million DKK) in Mr. McGee's PPLI policy was repaid to Skat as part of the initial payment of 950 million DKK.
- In June 2019 and August 2019, Mr. McGee wired two payments of \$230,000 USD and \$550,000 USD (in total, \$780,000 USD or 4.8 million DKK) from account [REDACTED] at Bank United held by [REDACTED] (an entity wholly owned by Mr. McGee) to WLRK Attorney Trust Account [REDACTED] at JPMorgan Chase held by the U.S. law firm Wachtell, Lipton, Rosen, & Katz ("Wachtell"), for payment to Skat. At the time, Wachtell represented [REDACTED].
- In August 2019, Mr. McGee transferred \$2.1 million USD (12.9 million DKK) from his personal account [REDACTED] at JPMorgan Chase to WLRK Attorney Trust Account [REDACTED] at JPMorgan Chase for payment to Skat.⁷
- On March 22, 2021, Mr. McGee paid Skat a total of \$3,195,000 USD (19,916,383.95 DKK). This includes \$2,775,147 USD (17,011,651 DKK) to fully repay the \$17.5 million USD (107.3 million DKK) that Mr. McGee's PPLI received from [REDACTED].⁸

In sum, Mr. McGee received a total of approximately \$20,601,718 USD (126,288,531 DKK) as a result of reclaim trading. Consistent with his commitment under the settlement agreement with Skat, Mr. McGee has fully repaid this amount to Skat. Moreover, as noted above, Mr. McGee is prepared to pay more than he received, if necessary.

⁷ Subsequently, the other [REDACTED] principals repaid Mr. McGee \$558,671 USD (3,424,653 DKK) of the total amount of \$2.1 million USD (12.9 million DKK) that Mr. McGee wired to Wachtell for payment to Skat in August 2019.

⁸ The remaining portion of the March 22, 2021 payment—\$412,596 USD (2,529,214 DKK)—represents full repayment of the total amount that Mr. McGee received from his trading in four pension plans.



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Mr. McGee's full commitment to help Skat in its ongoing efforts

In addition to repayment of the full net amount of proceeds received from Skat, the settlement also requires Mr. McGee and the other [REDACTED] principals to provide full and complete assistance to Skat in its investigation of other parties involved in the trading. Mr. McGee has agreed to provide non-privileged documents and information relating to the trading, reclaim applications submitted to Skat, proceeds of any such reclaim applications, and the distribution of such proceeds, including documents and information relating to the formation, operation and trading of the pension plans. Mr. McGee has also agreed that [REDACTED] U.S. counsel will make informational presentations to Skat's U.S. counsel.

Mr. McGee and the other principals have pledged to Skat that at all times, they "will use their best efforts to ensure that their cooperation with Skatteforvaltningen is meaningful and productive." Importantly, the information provided may be used by Skat in any proceedings Skat brings related to any reclaim applications in the U.S., the United Kingdom, Malaysia, Dubai, Denmark, and other jurisdictions. Thus, not only has Mr. McGee pledged to pay back everything he received in connection with reclaim applications, he has been assisting and continues to actively assist Skat in its efforts to recover funds from third parties around the world. Pending the resolution of the SØIK investigation, Mr. McGee is willing to meet with Skat as necessary to assist in Skat's investigation of other parties.

Sincerely,

A large black rectangular redaction box covering the signature of James Joseph Benjamin, Jr.

James Joseph Benjamin, Jr.